REPORT

DATE: June 2, 2005

TO: Administration Committee
Regional Council

FROM: Debbie Dillon, Supervising HR Officer, 213.236.1870, dillon@scag.ca.gov

SUBJECT: Retiree Medical Contribution Vesting

EXECUTIVE DIRECTOR'S APPROVAL:

RECOMMENDED ACTION:
The Personnel Committee recommends that the Administration Committee approve the establishment of a vesting requirement for SCAG's contribution to CalPERS retiree medical benefits as follows:

- **Active employees** - grandfather employees under existing requirements of vesting in CalPERS
- **Prospective employees** - ten years of full-time CalPERS covered SCAG service

BACKGROUND:
SCAG currently has no minimum SCAG service requirement towards eligibility for its $550 monthly contribution towards retiree CalPERS medical benefits. CalPERS require that the retiree be vested in CalPERS and retire from SCAG within 180 days of separation. CalPERS also requires that the contribution towards retiree medical be the same level as that for active employees. CalPERS allows the employer to set a minimum number of service years with the employer or vesting period.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits.

GASB 45 is a new requirement for public agencies. In simple terms, it will require SCAG to account for the costs associated with providing retiree medical benefits in a very different way. Currently, SCAG budgets the actual anticipated dollars towards each fiscal year's retiree medical premiums. For example, if there are 75 retirees, SCAG budgets 75 x $550 per month = $495,000 annually. GASB 45 requires that SCAG account for the actuarial liability of the current retiree costs and the future liability of retiree costs each year. This will increase SCAG's budgetary costs. It is unknown how much at this time. An actuarial study is budgeted for next fiscal year to ascertain SCAG's liability with regard to this new requirement. The implementation deadline for an organization with SCAG's revenue base is December 15, 2007.

In the meantime, SCAG is recommending implementation of this vesting requirement to minimize additional liability as new employees are hired between now and implementation of GASB 45. SCAG conducted a survey of comparable agencies and the vesting period ranges from vesting in CalPERS to 10 years of service with the employer. The average SCAG employee is 47.8 years old with 11.22 years of service. Therefore, SCAG believes this is a reasonable vesting period as the average employee will be eligible for this benefit.

Additionally, at least three current retirees have requested that SCAG increase its contribution towards retiree medical benefits by paying the Medicare supplement premium in addition to contributing up to $550 a month towards the cost of the CalPERS medical plan. At this time, it is not prudent to consider an increase prior to evaluating the results of the actuarial study.

FISCAL IMPACT:

No current additional cost. This is intended to limit SCAG's future liability for contributions towards retiree medical benefits. It is unknown how much it will limit the future liability until an actuarial study is completed in fiscal year 2005/2006.